

and the cognizant agency or the oversight agency. Those auditors who assume responsibility for any or all of the reports called for by §29b.18 should follow guidance set forth in “Government Auditing Standards” in using work performed by others.

(b) The auditor shall determine whether:

(1) The financial statements of the institution present fairly its financial position and the results of its operations in accordance with generally accepted accounting principles;

(2) The institution has an internal control structure to provide reasonable assurance that the institution is managing Federal awards in compliance with applicable laws and regulations, and controls that ensure compliance with the laws and regulations that could have a material impact on the financial statements; and

(3) The institution has complied with laws and regulations that may have a direct and material effect on its financial statement amounts and on each major Federal program.

**§29b.16 Internal controls over Federal awards: compliance reviews.**

(a) *General.* The independent auditor shall determine and report on whether the recipient has an internal control structure to provide reasonable assurance that it is managing Federal awards in compliance with applicable laws, regulations, and contract terms, and that it safeguards Federal funds. In performing these reviews, independent auditors should rely upon work performed by a recipient’s internal auditors to the maximum extent possible. The extent of such reliance should be based upon the “Government Auditing Standards.”

(b) *Internal control review.* (1) In order to provide this assurance on internal controls, the auditor must obtain an understanding of the internal control structure and assess levels of internal control risk. After obtaining an understanding of the controls, the assessment must be made whether or not the auditor intends to place reliance on the internal control structure.

(2) As part of this review, the auditor shall:

(i) Perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance. Tests of controls will not be required for those areas where the internal control structure policies and procedures are likely to be ineffective in preventing or detecting noncompliance, in which case a reportable condition or material weakness should be reported in accordance with §29b.18(c)(2);

(ii) Review the recipient’s system for monitoring subrecipients and obtaining and acting on sub-recipient audit reports; and

(iii) Determine whether controls are in effect to ensure direct and indirect costs were computed and billed in accordance with the guidance provided in the general requirements section of the “Compliance Supplement for Single Audits of Educational Institutions and Other Nonprofit Organizations.”

(c) *Compliance review.* (1) The auditor shall determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. In addition, transactions selected for non-major programs shall be tested for compliance with Federal laws and regulations that apply to such transactions.

(2) In order to determine which major programs are to be tested for compliance, recipients shall identify, in their accounts, all Federal funds received and expended and the programs under which they were received. This shall include funds received directly from Federal agencies, through other State and local governments or other recipients. To assist recipients in identifying Federal awards, Federal agencies and primary recipients shall provide the “Catalog of Federal Domestic Assistance” (CFDA) numbers to the recipients when making the awards.

(3) The review must include the selection of an adequate number of transactions from each major Federal financial assistance program so that the auditor obtains sufficient evidence to support the opinion on compliance required by §29b.18(c)(3). The selection and testing of transactions shall be based on the auditor’s professional

judgment considering such factors as the amount of expenditures for the program; the newness of the program or changes in its conditions; prior experience with the program particularly as revealed in audits and other evaluations (e.g., inspections, program reviews, or system reviews required by the FAR); the extent to which the program is carried out through sub-recipients; the extent to which the program contracts for goods or services; the level to which the program is already subject to program reviews or other forms of independent oversight; the adequacy of the controls for ensuring compliance; the expectation of adherence or lack of adherence to the applicable laws and regulations; and the potential impact of adverse findings.

(4) In making the test of transactions, the auditor shall determine whether:

- (i) The amounts reported as expenditures were for allowable services, and
- (ii) The records show that those who received services or benefits were eligible to receive them.

(5) In addition to transaction testing, the auditor shall determine whether:

- (i) Matching requirements, levels of effort and earmarking limitations were met,
- (ii) Federal financial reports and claims for advances and reimbursement contain information that is supported by books and records from which the basic financial statements have been prepared, and
- (iii) Amounts claimed or used for matching were determined in accordance with:

(A) OMB Circular A-21, "Cost Principles for Educational Institutions;"

(B) Matching or cost sharing requirements in OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations;"

(C) OMB Circular A-122, "Cost Principles for Nonprofit Organizations;"

(D) FAR (48 CFR part 31) cost principles; and

(E) Other applicable cost principles or regulations.

(6) The principal compliance requirements of the largest Federal programs may be ascertained by referring to the

"Compliance Supplement for Single Audits of Educational Institutions and Other Nonprofit Organizations," and the "Compliance Supplement for Single Audits of State and Local Governments" issued by OMB and available from the Government Printing Office. For those programs not covered in OMB's compliance supplements, the auditor should ascertain compliance requirements by reviewing the statutes, regulations, and agreements governing individual programs.

(7) Transactions related to other awards that are selected in connection with examinations of financial statements and evaluations of internal controls shall be tested for compliance with Federal laws and regulations that apply to such transactions.

[56 FR 15993, Apr. 19, 1991, as amended at 57 FR 4716, Feb. 7, 1992]

#### § 29b.17 Illegal acts.

If, during or in connection with the audit of a nonprofit institution, the auditor becomes aware of illegal acts, such acts shall be reported in accordance with the provisions of the "Government Auditing Standards."

#### § 29b.18 Audit reports.

(a) Audit reports must be prepared at the completion of the audit.

(b) The audit report shall state that the audit was made in accordance with the provisions of this part and OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations."

(c) The report shall be made up of at least the following three parts:

(1) The financial statements and a schedule of Federal awards and the auditor's report on the statements and the schedule. The schedule should identify the major programs and show the total expenditures for each program. Individual major programs other than Research and Development and Student Aid should be listed by catalog number as identified in the CFDA. Expenditures for Federal programs other than major programs shall be shown under the caption "other Federal assistance." Also, the value of non-cash assistance such as loan guarantees, food commodities or donated surplus properties or the outstanding balance